

BEFORE THE STATE CORPORATION COMMISSION

OF THE STATE OF KANSAS

IN THE MATTER OF THE APPLICATION]
OF KANSAS GAS SERVICE, A DIVISION OF]
ONE GAS, INC. FOR THE RECOVERY OF] KCC DOCKET NO. 22-KGSG-466-TAR
QUALIFIED EXTRAORDINARY COSTS]
AND ISSUANCE OF A FINANCING ORDER.]

TESTIMONY OF PATRICK ORR

ON BEHALF OF

THE CITIZENS' UTILITY RATEPAYER BOARD

JUNE 17, 2022

1 **I. STATEMENT OF QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. My name is Patrick N. Orr, and my business address is 1500 SW Arrowhead Road,
4 Topeka, Kansas 66604.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by the Kansas Citizens' Utility Ratepayer Board (CURB) as a
8 Regulatory Analyst.

9
10 **Q. Please summarize your professional experience in the utility industry.**

11 A. I have been employed as a Regulatory Analyst with CURB since 2019. Since
12 beginning my employment with CURB, I have researched and analyzed numerous utility
13 dockets filed with the Kansas Corporation Commission (KCC or "Commission").

14
15 **Q. Have you previously testified in regulatory proceedings?**

16 A. Yes, I provided written testimony in KCC Docket Nos. 19-SPEE-240-MIS, 21-
17 EKCE-020-TAR, 21-SPEE-331-GIE, and 21-EKME-329-GIE.

18
19 **Q. What is your educational and employment background?**

20 A. I have a Bachelor of Business Administration degree in Finance and Personnel

1 Management from Washburn University. Prior to my employment with CURB, I worked
2 for the Kansas Department of Administration for thirty years. In that position, I was
3 responsible for preparing rates for information technology (IT) services in accordance with
4 *Circular A-87 Cost Principles for State, Local and Indian Tribal governments.*

5
6 **II. SUMMARY OF TESTIMONY**

7 **Q. Please summarize your testimony in this proceeding.**

8 A. My testimony provides my analysis and recommendation to the Commission on
9 behalf of CURB, and in particular the Kansas residential and small commercial ratepayers
10 whom CURB represents, regarding the application filed by Kansas Gas Service, a Division
11 of ONE Gas, Inc. (“Kansas Gas Service” or “KGS”) in this docket. Based upon my review
12 of the application, testimony filed by Kansas Gas Service in connection with the
13 application, workshops held between Kansas Gas Service, the Commission Staff (“Staff”)
14 and CURB, and several Data Requests (DRs), it is my opinion that the securitization
15 contemplated by the application is generally cost-beneficial to Kansas residential and small
16 commercial ratepayers. Therefore, I recommend that the Commission grant the same,
17 subject to the following comments and suggestions:

- 18 1. Considering the volatility in bond rates, CURB believes that KGS should use
19 its best judgment, in connection with the sole discretion granted to it under
20 K.S.A. 66-1,241(h)(2) in determining whether to cause securitized utility tariff
21 bonds to be issued.
- 22 2. CURB believes that Kansas Gas Service should earnestly reconsider its

1 decision to use fixed-charge versus volumetric-based recovery of securitized
2 utility tariff bonds.

3 3. The current cost of natural gas, with additional costs of the securitized utility
4 tariff bonds make it an imperative that KGS continue to work with CURB to
5 institute a low-income tariff to alleviate some of the energy burden on low-
6 income customers.

7 4. Kansas Gas Service should develop workshops to inform and educate
8 customers on the extraordinary costs that will appear on bills. CURB believes
9 it is crucial that customers are forewarned of the new charges to enable them to
10 budget accordingly. This is especially true now that approximately eighteen
11 months have passed since the Winter Weather Event.

12
13 **Q. Please provide an overview of this docket.**

14
15 A. This docket (22-466 Docket) stems from the Commission's orders in Docket No.
16 21-GIMX-303-GIV (21-303 Docket) and in Docket No. 21-KGSG-332-GIG (21-332
17 Docket). Accordingly, this docket addresses cost recovery for KGS relating to its efforts to
18 ensure natural gas utility services continued to be provided to its customers in Kansas
19 during Winter Storm Uri, as was contemplated in the 21-332 Docket. In particular, KGS
20 requests the Commission approve the proposed Financing Order attached to its
21 Application. The background to this request is important.

22 As the Commission will recall, Winter Storm Uri imposed extreme and
23 unprecedented freezing weather conditions across the United States, resulting in record

1 demand for natural gas and electricity. During Winter Storm Uri, many parts of Kansas
2 suffered thirteen continuous days of freezing temperatures, with temperatures in the single
3 digits or below zero. Natural gas prices in the Central United States reached all-time highs.

4 Importantly, the Commission issued an Emergency Order in the 21-303 Docket
5 (“Emergency Order”). In the Emergency Order, the Commission ordered all jurisdictional
6 natural gas and electric utilities to do all things possible and necessary to ensure natural
7 gas and electricity utility services continued to be provided to their customers in the State.¹
8 Further, on March 9, 2021, the Commission opened the 21 -332 Docket to investigate the
9 effects of the Winter Event on KGS and its customers.² The Commission ordered KGS to
10 file a plan to minimize the financial impact of the Winter Event on customers.³

11 On July 30, 2021, KGS filed its Financial Plan in the 21-332 Docket to minimize
12 the financial impact of the Winter Weather Event on customers. KGS, in its Financial Plan,
13 notified the Commission that it would seek authorization to issue Securitized Utility Tariff
14 Bonds to finance extraordinary costs. Several parties intervened in the 21-332 Docket, and
15 after considerable discovery and settlement conferences, several of these parties were able
16 to agree to a Financial Plan Settlement Agreement. On November 19, 2021, KGS, Staff,
17 CURB, and the Natural Gas Transportation Customer Coalition (“NGTCC”) submitted a
18 joint motion to approve the Financial Plan Settlement Agreement.⁴

1 Emergency Order, p. 3, Docket No. 21-GIMX-303-MIS, Feb. 15, 2021.

2 Order Adopting Staff's R&R to Open Company Specific Investigations, Docket No. 21-KGSG-332-GIG, March 9, 2021.

3 Id, p. 16.

4 Settlement Agreement. Docket No. 21-KGSG-332-GIG, Nov. 19, 2022.

1 The Financial Plan Settlement required KGS to apply for a Financing Order seeking
2 authorization to issue Securitized Utility Tariff Bonds to finance the Qualified
3 Extraordinary Costs — prudently incurred extraordinary costs related to the continuity of
4 KGS utility services during Winter Storm Uri. Likewise, the Financial Plan Settlement
5 includes several elements which KGS must incorporate into this Application. At the time
6 of the Financial Plan Settlement, KGS had stated that it had prudently incurred Total
7 extraordinary fuel costs of \$366,987,155 and projected carrying costs of \$14,972,289
8 totaling \$381,959,334 through February 2023, resulting from the 2021 Winter Weather
9 Event.⁵

10 However, it is important to note that these Total Extraordinary Costs included gas
11 costs arising from additional gas supplies provided for transport customers (and marketers)
12 who did not secure and/or deliver enough gas supply to meet their needs. These
13 transportation customers and marketers are served from KGS's natural gas pipeline
14 facilities, but are individually responsible (voluntarily) for procuring natural gas to meet
15 their own needs. A Unanimous Settlement Agreement in the 21-332 Docket was approved
16 by the Commission on March 3, 2022, whereby the Commission ordered the transportation
17 customers (or their marketers) to pay negotiated gas cost penalties in the aggregate amount
18 of \$65,444,505 (which excepted one particular marketer that was given a different payment
19 period) within forty-five (45) days of the Commission's Order approving the Unanimous
20 Settlement. The excepted marketer's penalty (plus interest) was required to be paid in

5 Direct Testimony of Janet Buchanan on Behalf of Kansas Gas Service, March 31, 2022, p 12.

1 monthly installments to KGS, concluding no later than the fourth-year anniversary of the
2 Commission's Order approving the Unanimous Settlement. The Commission's Order
3 provided that all penalty payments received by Kansas Gas Service (up to \$52,446,581)
4 from marketers and transportation customers prior to the filing of the application for a
5 Financing Order in this docket shall reduce the Qualified Extraordinary Costs to be
6 recovered using the Securitized Utility Bonds.⁶

7 It is my understanding that a substantial amount of those penalties have now been
8 paid. In turn, that has reduced the amount of Qualified Extraordinary Costs to be recovered
9 using the Securitized Utility Bonds. Therefore, the amount of Qualified Extraordinary
10 Costs set forth in the Kansas Gas Service application in this docket is overstated. However,
11 I have taken that into account in my testimony.

12 With particular respect to securitization, the Financial Plan Settlement specified a
13 number of important terms. Among those, it specified that KGS may recover carrying
14 charges on the Qualified Extraordinary Costs, at a rate of 2.0%, between the time the
15 Qualified Extraordinary Costs were incurred until the Securitized Utility Tariff Bonds are
16 issued and KGS begins to charge customers a Securitized Utility Tariff Charge.⁷ It also
17 provided that, unless otherwise prohibited by law, Securitized Utility Tariff Charges will
18 not be charged to transportation customers. Further, it provided that, unless otherwise
19 prohibited by law, sales customers who become transportation customers during the period

6 Order Approving Unanimous Settlement Agreement on Waiver of the Penalties Under Kansas Gas Service's
Tariff, p. 6, Docket No. 21-KGSG-332-GIG March 3, 2022.

7 Settlement Agreement, ¶20, Docket No. 21-KGSG-332-GIG, Nov. 19, 2022.

1 Securitized Utility Tariff Charges are being recovered shall be required to pay a settlement
2 fee prior to becoming a transportation customer.⁸

3 On February 8, 2022, the Commission approved the Financial Plan Settlement in
4 its entirety.⁹ The Commission emphasized several points: (1) it was in the public interest
5 for KGS to incur extraordinary costs during the Winter Event, (2) it is in the public interest
6 to recover such costs, and (3) the Financial Plan outlined in the Financial Plan Settlement
7 Agreement will result in just and reasonable rates.¹⁰

8 In short, the application in this docket, including the Financing Order, lays the
9 groundwork for securitization of Qualified Extraordinary Costs, as contemplated by the
10 Financial Plan Settlement in the 21-332 Docket and the Commission's order approving the
11 same. As previously stated, the Qualified Extraordinary Costs, subject to update, true-up,
12 and verification, were established in the Commission-approved Financial Plan Settlement.

13
14 **Q: Please describe the key aspects of the application in this docket**

15 **A:** In general, the proposal, as filed, consists of the following:

16 a) KGS proposed to recover \$366,987,155 of Qualified Extraordinary Costs and
17 Carrying Costs of \$14,972,289.¹¹ (I recognize that the Qualified Extraordinary Costs have
18 been reduced by payment of the negotiated gas penalties as I described earlier.) The
19 Qualified Extraordinary Costs will be updated, trued-up, verified, and allocated among

8 Id p ¶19.

9 Order Approving Unanimous Settlement Agreement on Kansas Gas Services' Financial Plan, p. 10, Docket No. 21-KGSG-332-GIG, Feb. 8, 2022.

10 Ibid.

11 Application for Financing Order, pp. 9-10, March 31, 2022.

1 their sales customers. Additional costs will be updated, trued-up, and verified in this
2 proceeding.¹²

3 b) KGS will form a wholly owned, subsidiary, Delaware Special Purpose Entity
4 LLC ("SPE"), referred to in the Utility Financing and Securitization Act as an Assignee;

5 c) The SPE will be designed to be a bankruptcy-remote limited purpose entity;

6 d) The Financing Order will establish the mechanism for the creation of Securitized
7 Utility Tariff Property;

8 e) KGS will transfer, via a true sale, its rights in Securitized Utility Tariff Property
9 to the SPE, rendering the Financing Order irrevocable;

10 f) The SPE will issue Securitized Utility Tariff Bonds to investors;

11 g) The proceeds from the Securitized Utility Tariff Bonds will be used, directly or
12 indirectly to recover, finance or refinance KGS Qualified Extraordinary Costs and
13 Financing Costs;

14 h) The Securitized Utility Tariff Bonds and Financing Costs will be secured by or
15 payable from the Securitized Utility Tariff Property transferred to the SPE;

16 i) KGS will act as a collection agent or servicer for the SPE and the SPE's right to
17 collect and receive Securitized Utility Tariff Charges;

18 j) KGS will, on a semi-annual basis, unless greater frequency becomes necessary,
19 apply an Adjustment Mechanism to the Securitized Utility Tariff Charges to ensure the
20 timely and complete payment of the Securitized Utility Tariff Bonds and all other

12 Direct Testimony of Janet Buchanan, Kansas Gas Service, Updated Supplemented June 3, 2022, p 12.

1 Financing Costs.¹³

2

3 **Q. Please describe the analysis that CURB conducted with respect to the application.**

4 A: CURB limited its analysis in this docket to the matters listed below. Budget
5 limitations make CURB's retention of a bond consultant cost-prohibitive. Further, both
6 KGS and Staff have retained bond consultants and CURB has engaged in several
7 workshops with these authorities. In view of that, the insight that another bond authority
8 retained by CURB would add to this docket would be substantially outweighed by the cost
9 thereof, which would be paid by ratepayers.

10 Thus, CURB primarily analyzed the impact that securitization of the Qualified
11 Extraordinary Costs would have on residential ratepayers, especially low-income
12 residential ratepayers. CURB compared these impacts to the impact upon residential
13 ratepayers if costs were recovered through traditional ratemaking mechanisms.

14 CURB also reviewed the application and associated proposed Financing Order,
15 including the testimony filed by Kansas Gas Service witnesses to verify that the
16 Commission's orders in Docket No. 21-KGSG-332-GIG and the requirements of Utility
17 Financing and Securitization Act ("Act"), found at K.S.A. 66-1,240, *et seq.*, were properly
18 reflected. In these regards, CURB hopes to add value to this proceeding by providing the
19 residential ratepayer's view concerning whether the application meets the requirements of
20 the pertinent Commission's orders and the Act.

13 Application for Financing Order, ¶15, March 31, 2022..

1

2 **Q. Based upon your analysis, do you believe that the application properly reflects the**
3 **recovery of Qualified Extraordinary Costs from KGS ratepayers, as contemplated in**
4 **the Commission orders in Docket No. 21-KGSG-332-GIG and the Act?**

5 A. Yes. As I stated above, the Commission approved the Financial Plan Settlement
6 that contemplated approximately \$366,987,155 of extraordinary fuel and related costs
7 would be recovered by Kansas Gas Service through securitized bonds. In her testimony,
8 Janet Buchanan explains how the amount to be recovered by Kansas Gas Service through
9 securitized bonds meets the definition of extraordinary fuel costs in the Commission's
10 orders as well as the definition of Qualified Extraordinary Costs in the Act.

11 Based upon my review of the application and proposed Financing Order, including
12 the testimony of the Kansas Gas Service witnesses, it is my opinion that the Financing
13 Order meets all the requirements of the Act. It is not necessary for me to highlight all
14 aspects of the Act, as those are adequately explained by Kansas Gas Service witnesses.
15 However, I would like to highlight a few statutory requirements that are key to CURB.

16 K.S.A. 66-1,241(c)(1)(B) requires that the application contain a description of the
17 Qualified Extraordinary Costs that Kansas Gas Service proposes to recover and how
18 customary rate-making treatment of such costs would result in extreme customer impacts.
19 The testimony of Janet Buchanan contains a description of the Qualified Extraordinary
20 Costs that Kansas Gas Service proposes to recover through securitized bonds.¹⁴ Her

14 Direct Testimony of Janet Buchanan, KGS, June 3, 2022, p 11.

1 testimony also estimated that the monthly fixed charge for a 10-year securitized recovery
2 would result in a \$4.54 per month residential fixed customer charge, while the monthly
3 fixed charge for a 12-year securitized recovery was estimated to result in a \$3.91 per month
4 residential fixed customer charge.¹⁵ In contrast, her testimony shows that traditional
5 ratemaking recovery through the cost of gas rider (COGR) would result in a \$38.74 per
6 Mcf charge for an average use residential customer for an average annual bill of \$1,399.33
7 or a 69% increase in a residential customer's bill.¹⁶ In short, traditional ratemaking
8 recovery would result in much more extreme bill impacts.

9 K.S.A. 66-1,241(c)(2) requires that the application contain a description of the
10 securitized utility tariff costs that Kansas Gas Service proposes to recover with the proceeds
11 of the securitized utility tariff bonds. As I stated earlier, Kansas Gas Service proposed to
12 recover \$381,959,344 (now reduced) through securitized utility tariff bonds. Kansas Gas
13 Service describes these costs by breaking them down into gas costs, operation and
14 maintenance costs, financing fees and other various costs.¹⁷

15 K.S.A. 66-1,241(c)(6) requires that the application contain the proposed method by
16 which the revenue requirement for the securitized utility tariff charge among customer
17 classes. Kansas Gas Service proposed to allocate that revenue requirement among customer
18 classes based upon estimated February 2021 gas usage. Indeed, that allocation was agreed
19 to by the parties to the Financial Plan Settlement and approved by the Commission.

15 Id, pp. 31-33.

16 Id, p 37.

17 Application for Financing Order, March 31, 2022, p 19.

1 K.S.A. 66-1,241(c)(7) requires Kansas Gas Service to describe the nonbypassable
2 securitized utility tariff charge required to be paid by all customers within the public
3 utility's service area for recovery of securitized utility tariff costs and a proposed
4 adjustment mechanism reflecting the allocation methodology referred to in K.S.A. 66-
5 1,241(c)(6). The Winter Event Securitized Cost Recovery Rider ("WESCR") is the
6 proposed tariff necessary to recover Securitized Utility Tariff Costs from customers. The
7 WESCR will be recovered from the Company's sales customers beginning the first billing
8 cycle following the issuance of Securitized Utility Tariff Bonds.¹⁸ To obtain the highest
9 bond rating possible, the Company's proposed WESCR modifies the Company's General
10 Terms and Conditions. This ensures payments received by the Company's sales customers
11 will first be applied to the WESCR portion of their bill, and then to their remaining
12 charges.¹⁹ The WESCR will remain on gas sales customers' bills until all Securitized
13 Utility Tariff Bonds, financing costs and servicing fees, administrative fees etc. related to
14 the bonds are paid in full. This is expected to be at the final scheduled maturity date of the
15 bonds.²⁰

16 KGS proposes to implement the Act's adjustment mechanism on a semi-annual
17 basis to determine any over- or under-collection and ensure the timely and complete
18 payment of the Securitized Utility Tariff Bonds. Semi-annual filings will help minimize
19 variations in the WESCR for customers. KGS also proposes to reserve the right to make
20 more frequent optional adjustments at any time in the event any under-collection is

18 Id, p 16.

19 Id, p 17.

20 Direct Testimony of Janet Buchanan, p 32, June 3, 2022.

1 projected.²¹ Presently, the Company expects to issue Securitized Utility Tariff Bonds in
2 February 2023.²²

3 In her testimony, Janet Buchanan states not all costs or offsets to the costs to be
4 securitized will be known at the time KGS submits their Application or, provided the
5 Commission approves, at the time the bonds are issued. To account for this, the Company
6 proposes to use a reconciliation process on the first anniversary of the issuance of the
7 bonds. Because the reconciliation process cannot affect the Company's Securitized Utility
8 Tariff Bonds, Securitized Utility Tariff Property, or Securitized Utility Tariff Charges, the
9 Company proposes to implement the reconciliation process through its Cost of Gas Rider
10 ("COGR"). By using this existing rider, the Company will implement the reconciliation
11 process through an existing rate-making process in a manner that does not affect other
12 securitization items. KGS hereby affirms the reconciliation process will not affect the
13 Securitized Utility Tariff Bonds, the Securitized Utility Tariff Property or the associated
14 Securitized Utility Tariff Charges paid by customers.²³

15 I believe that the application addresses all that the Act requires Kansas Gas Service
16 to do with respect to its proposal to use securitized utility tariff charges to recover the
17 Qualified Extraordinary Costs. Therefore, I believe that application should be granted by
18 the Commission, subject to the concerns that I outlined earlier.

19
20 **Q. What was CURB's main focus regarding the application?**

21 Application for Financing Order, p 17, March 31, 2022.

22 Id, p 18.

23 Id, p 19.

1 A: CURB's main focus is the rate impact on residential ratepayers, especially low-
2 income ratepayers, of the charges under securitization. Part of my focus was my
3 determination whether securitization of the Qualified Extraordinary Costs would have less
4 impact on residential ratepayers than would recovery of those costs through traditional
5 regulatory mechanisms.

6 In these regards, it is important to note that when the Financial Plan was filed with
7 the Commission in the 21-332 Docket, there was a general perception that the bond rate at
8 which securitization would occur would be at a very low rate. However, since that time,
9 the United States economy has experienced a higher rate of inflation. The annual inflation
10 rate in the US unexpectedly accelerated to 8.6% in May of 2022.²⁴ The inflation rate has
11 caused the federal government to raise interest rates, which, in turn, could lead to higher
12 interest rates for newly issued bonds. Indeed, the Wall Street Journal reported that the
13 Federal Reserve increased interest rates another 75 basis points on June 15, 2022.²⁵
14 Consequently, we believe that the bond rate at which securitization may occur in this
15 docket is now over 4.0% and could trend higher. Higher bond rates could add a substantial
16 amount of interest to the principle being carried through the securitized bonds, raising the
17 amount to be recovered from ratepayers through a securitized bond tariff.

18 CURB still believes that, presently, financing the Qualified Extraordinary Costs
19 through securitized bonds rather than traditional rate-making methods yields substantial
20 rate savings for consumers. However, CURB cautions that existing bond rates should be

24 <https://findingeconomics.com/united-states/inflation-cpi>

25 Wall Street Journal, June 16, 2022, p 1.

1 analyzed relative to KGS's weighted average cost of capital, currently at 8.60%²⁶ close to
2 the time when the bonds would be issued in order to determine actual rate savings.

3 In that respect, CURB understands that Kansas Gas Service has absolute discretion
4 under the Act regarding the final decision to cause securitized tariff bonds (once the
5 Financing Order is approved by the Commission) to be issued.²⁷ While it appears that
6 securitization will result in quantifiable rate benefits to consumers versus traditional rate
7 recovery at present bond rates, this is clearly subject to change. Therefore, we request that
8 Kansas Gas Service use its best judgment (once the Financing Order is approved by the
9 Commission) to determine whether to cause securitized tariff bonds to be issued under
10 bond pricing in existence at the pertinent time. That said, CURB firmly believes that the
11 issue is in the sole discretion of Kansas Gas Service.

12 Moreover, because bond rates are higher than anticipated when the Financial Plan
13 was filed with the Commission, the question arises as to how to minimize rate impact on
14 ratepayers, but not stretch out the recovery period so long that an unnecessary amount of
15 interest accumulates or so long that there is a significant risk that another unforeseen event
16 causes additional extraordinary fuel costs to be incurred by KGS, leading to the pancaking
17 of recovery charges to consumers.

18 Another issue to be avoided is the potential for intergenerational inequity that could
19 be brought about by a prolonged period of recovery from ratepayers. The longer that the
20 recovery period is, the more likely that more new customers come onto the KGS system

26 Direct Testimony of Mark W. Smith, p. 24, June 3, 2022.

27 K.S.A. 66-1,241(h)(2).

1 that did not cause the Qualified Extraordinary Costs to be incurred, but still are required to
2 pay costs from back in 2021.

3 The current high cost of natural gas and trend towards even higher natural gas prices
4 is yet another complicating factor. At the present time, natural gas prices are nearly three
5 times historical natural gas prices. The energy burden associated with such rising costs is
6 likely to grow and impact a wider base of ratepayers.

7

8 **Q: Do you have an opinion regarding the duration of the period over which Qualified**
9 **Extraordinary Costs should be recovered through securitization?**

10 A: Yes. Based upon my research and participation in the several workshops that
11 Kansas Gas Service and the Staff held, CURB would prefer a recovery period of either ten
12 years or twelve years, but recommends that the Commission not approve a recovery period
13 shorter than seven years for securitization. As estimated by Janet Buchanan, the cost per
14 month for the residential ratepayer is approximately \$4.54 for a 10-year securitized
15 recovery period and \$3.91 for a 12-year securitized recovery. The cost per month for
16 residential ratepayers for securitized recovery periods of five years is approximately
17 \$9.32.²⁸ CURB understands that with the reduction of total Qualified Extraordinary Costs
18 due to the payment of the negotiated settlement amounts owed by transportation customers
19 and marketers, the amounts discussed by Ms. Buchanan have changed. Nonetheless, CURB
20 believes that a nonbypassable payment of nearly \$10.00 per month could be burdensome

28 Direct Testimony of Janet Buchanan, p. 37, June 3, 2022.

1 for low-income customers. Although CURB agrees that Kansas Gas Service should have
2 flexibility to choose a recovery period, CURB would urge eliminating the five-year
3 securitized recovery period option. In addition, a fifteen-year recovery period appears to
4 add substantial interest to be recovered from ratepayers without substantial reductions to
5 the monthly payment. Therefore, CURB suggests that KGS be granted flexibility to choose
6 a recovery period from seven, ten and twelve years, but CURB would prefer the latter two
7 periods.

8
9 **Q: Does this period of time eliminate the issue of impact upon low-income ratepayers?**

10 A: No. Although a longer securitized recovery period could result in fixed charges of
11 less than \$5.00 per month, when these charges are added to rising natural gas costs of over
12 \$6.00 per MMBTU, the overall burden of energy costs on low-income consumers may
13 become very significant. Therefore, CURB believes that relief for low-income consumers
14 has become a critical issue. CURB has been working with KGS on this issue and is hopeful
15 that legislation can be proposed during the next legislative session. CURB desires to
16 continue to work with KGS and other utilities to develop a low-income tariff. Although
17 this will not help reduce low-income customer's WESCR, it will provide relief to these
18 customers who need to reduce their overall energy burden. CURB will continue to work
19 with both electric and gas utilities to implement a low-income tariff. It is imperative that
20 this work be intensified over the next few months.

21 Another concern that CURB has with respect to low-income customers is the lack
22 of information that KGS has on their usage patterns. CURB believes that data concerning

1 low-income energy use and billing data, and drivers for high usage, should be collected.
2 That information will allow KGS to frame aid for low-income ratepayers in an effective
3 manner and provide insight into the change in bill impacts and possible areas of assistance.
4

5 **Q: You mentioned earlier that you were concerned regarding whether recovery should**
6 **be based upon a fixed charge or volumetric charges. Please explain.**

7 **A:** CURB is also concerned with whether the Qualified Extraordinary Costs should be
8 recovered through a fixed charge or through volumetric charges. KGS proposes that
9 Qualified Extraordinary Costs should be recovered through a fixed charge. Indeed, Mr.
10 Smith, Vice President and Treasurer for ONE Gas, Inc., testifies, on behalf of KGS, that a
11 volumetric-based recovery of Qualified Extraordinary Costs may impact the bond rating
12 for this securitization and, therefore, could result in higher bond rates to be paid by Kansas
13 ratepayers.²⁹ CURB does not disagree with Mr. Smith's analysis.

14 CURB understands and appreciates Mr. Smith's testimony in these regards. It is
15 certainly in the interest of residential ratepayers to keep bond rates in this securitization as
16 low as possible, especially in light of the rise in interest rates. In addition, CURB sees a
17 benefit to residential ratepayers in a levelized cost structure (such as with a fixed charge).
18 CURB acknowledges that a volumetric-based recovery of Qualified Extraordinary Costs
19 could result in some ratepayers, particularly low-income, paying much more in the winter
20 than in the summer months. These high-cost months could be extremely hard for some

29 Direct Testimony of Mark W. Smith, p. 14, June 3, 2022.

1 low-income customers to plan for and adjust budgets resulting from securitization charges.

2 On the other hand, CURB recognizes that some low-income ratepayers attempt to
3 reduce energy bills through personal conservation efforts on a regular basis. A fixed
4 charge-based recovery of Qualified Extraordinary Costs remains constant, regardless of
5 conservation efforts. If bill increases come from fixed surcharges, volumetric reductions to
6 usage begin to have diminishing returns and can even reduce a person's incentive to
7 conserve. Moreover, there could be many low-income ratepayers who used less gas during
8 Winter Storm Uri than the average residential ratepayer. In view of these cases, it does not
9 seem fair to recover Qualified Extraordinary Costs on a fixed charge basis, since it may
10 result in those ratepayers paying more costs than they caused.

11 Even though CURB acknowledges the analysis that Mr. Smith provides, CURB
12 still recommends that Kansas Gas Service reconsider whether recovery should be based
13 upon a fixed charge or volumetric charges. CURB believes that residential and small
14 commercial ratepayers should have some control over the level of charges that they will
15 have to pay. Residential and small commercial ratepayers who do not use much energy,
16 particularly if they are low-income customers, should not be forced to pay for energy that
17 they did not use during Winter Storm Uri and do not typically use during the year.

18
19 **Q. If these concerns are addressed, does CURB believe that securitization is still**
20 **appropriate to recover Winter Event Costs?**

21 **A.** Yes. The use of securitization will eliminate the need of using traditional
22 ratemaking methods to recover the Qualified Extraordinary Costs resulting from Winter

1 Storm Uri. As stated in testimony, under the alternative traditional ratemaking recovery
2 period ranging from 3-5 years, monthly charges required to recover Winter Storm Uri costs
3 could range from approximately \$10.57 to \$16.24 per month.³⁰ With securitization, these
4 charges are estimated to range from \$3.91 to \$8.39 per month depending on the
5 securitization time frame.³¹ CURB echoes the sentiment of the testimony of Mark Smith,
6 in which he states that recovering the Winter Event costs through existing regulatory
7 mechanisms is not viable due to the rate shock which would be experienced by customers
8 and quite simply unaffordable for many customers.³²

9 KGS will schedule a workshop to explore revising its tariff in accordance with
10 lessons learned during Winter Storm Uri. CURB encourages KGS to add a second
11 workshop to work with CURB, Staff, Kansas jurisdictional utilities, and key legislators to
12 develop low-income tariff relief. CURB believes it is crucial that KGS and other Kansas
13 jurisdictional utilities help to develop low income tariff relief to help minimize the effect
14 of the recovery of extraordinary costs, compounded with increasing energy prices.

15 KGS has presented various bond repayment schedules ranging from 5 to 20 years.
16 Intergenerational inequities will occur the longer the length of repayment schedules. In
17 addition, a longer repayment period will increase the total amount of interest paid by
18 ratepayers. CURB feels a bond repayment term between 10 to 12 years provides the ideal
19 mix of principal and interest charges.

20 CURB believes the proposed Financing Order contained in the application and

30 Direct Testimony of Janet Buchanan, p. 37, Kansas Gas Service, June 3, 2022.

31 Ibid.

32 Direct Testimony of Mark W. Smith, p. 9, June 3, 2022.

1 supplemented by the accompanying testimony complies with the requirements of the Act.
2 However, CURB needs to raise one additional concern. If the Commission does not grant
3 the application in this docket or if Kansas Gas Service elects not to cause securitized tariff
4 bonds to be issued pursuant to K.S.A. 66-1,241(h)(2), then CURB believes that the
5 Commission should have a hearing to determine the amount of time and the carrying
6 charges pertaining to recovery of the Qualified Extraordinary Costs through traditional
7 ratemaking. CURB believes that a recovery over a short period of time, such as five years,
8 may be unduly burdensome to residential ratepayers, especially low-income ratepayers.
9 CURB does not believe that sufficient attention to this issue has occurred, since all parties
10 believed that the issuance of securitized tariff bonds would provide substantial and
11 quantifiable rate benefits relative to traditional ratemaking recovery methods. If that belief
12 turns out to be false, then it is important that all parties be allowed to weigh in on the issue
13 of how to structure recovery through traditional ratemaking methods.

14
15 **Q. If the application is granted, will the securitization contemplated therein result in net**
16 **quantifiable rate benefits to consumers?**

17 A: Yes. Using customary rate-making treatment to recover KGS's qualified
18 extraordinary costs would result in extreme customer rate impacts. If the proposed
19 Financing Order is denied, KGS proposes to utilize a rider to recover all of the Qualified
20 Extraordinary Costs over a three- or five-year period. The rider would recover the Qualified
21 Extraordinary Costs from all KGS sales customers using a fixed monthly charge. As
22 mentioned earlier, estimated residential customer charges range from a high of \$16.24 per

1 month if recovered over three years to \$10.57 per month if recovered over five years. This
2 alternative proposal, though shorter in duration than the Company's securitization
3 proposal, places an extreme rate impact on their customers. This impact can be mitigated
4 using securitization, which is the Company's preferred cost recovery mechanism for the
5 Qualified Extraordinary Costs.³³

6
7 **Q. Is granting the application in the public interest?**

8 **A.** Yes. The application in this docket meets the requirements of the Act. Further, the
9 use of securitized utility tariff charges was contemplated by the Commission in its orders
10 in the 21-332 Docket. Importantly, the use of securitized utility tariff charges is projected
11 to provide a net quantifiable rate benefit for consumers. The public interest is therefore met
12 by the application inasmuch as it allows Kansas Gas Service to recover the costs it incurred
13 to continue gas utility service to Kansas consumers through Winter Storm Uri at a rate that
14 is more tolerable to Kansans. That, along with the continued commitment of Kansas Gas
15 Service to work toward a low-income rate relief tariff will help those Kansans who are
16 most deeply affected by payment of the Qualified Extraordinary Costs.

17
18 **Q: What is your final recommendation?**

19 **A:** I support the Application of Kansas Gas Service for Financing Order for Recovery
20 of Securitized Utility Tariff Costs and Financing Costs, subject to the concerns I have
21 discussed in my testimony. I believe the proposed Financial Order properly reflects the

33 Id, p11.

1 pertinent Commission orders and the Act. Moreover, presently, recovery of the Qualified
2 Extraordinary Costs through a securitized bond tariff would result in substantial ratepayer
3 savings when compared to recovery through traditional ratemaking mechanisms.

4 Therefore, CURB recommends that the Commission approve the Financing Order
5 subject to the following.

- 6 1. KGS may choose either a 7, 10 or 12 year recovery period. A recovery period
7 of 5 years may be unduly burdensome on low-income ratepayers and a period
8 of 15 years would add a substantial amount of accumulated interest and
9 intergenerational inequity. To CURB, a recovery period of 10 or 12 years is the
10 most reasonable under the circumstances.
- 11 2. CURB implores Kansas Gas Service to use its best judgment, in view of the
12 actual bond rates when securitized tariff bonds are issued, when determining
13 whether securitized tariff bonds are to be issued.
- 14 3. KGS should earnestly consider the recovery of Extraordinary Costs through
15 volumetric charges versus fixed charges. A fixed charged recovery of
16 Extraordinary Costs would mean those low-income ratepayers who conserved
17 during Winter Storm Uri would receive more of these costs than they incurred.
- 18 4. KGS should continue to work with CURB, Staff, and others to seek a low
19 income tariff for needed relief for low-income ratepayers.

20 **Q. Does this conclude your testimony?**

21 **A. Yes, thank you.**

VERIFICATION

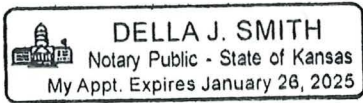
STATE OF KANSAS)
)
COUNTY OF SHAWNEE) ss:

I, Patrick Orr, of lawful age and being first duly sworn upon my oath, state that I am a Regulatory Analyst for the Citizens' Utility Ratepayer Board; that I have read and am familiar with the above and foregoing document and attest that the statements therein are true and correct to the best of my knowledge, information, and belief.



Patrick Orr

SUBSCRIBED AND SWORN to before me this 16th day of June, 2022.





Notary Public

My Commission expires: 01-26-2025.

CERTIFICATE OF SERVICE

22-KGSG-466-TAR

I, the undersigned, hereby certify that a true and correct copy of the above and foregoing document was served by electronic service on this 17th day of June, 2022, to the following:

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